

Message Text

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SUBJECT: EC FINANCE COUNCIL, MARCH 14, 1977: RESULTS

REF: (A) EC BRUSSELS 2390 (B) EC BRUSSELS 2350
(C) EC BRUSSELS 2308 (D) EC BRUSSELS 2127
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1. SUMMARY: DURING THEIR MARCH 14 COUNCIL SESSION, THE EC FINANCE MINISTERS APPROVED COMMUNITY ADOPTION OF THE TERMS OF THE EXPORT CREDIT CONSENSUS AND AUTHORIZED CONSOLIDATION FROM VARIABLE TO FIXED RATE FORM OF A SECOND \$100 MILLION TRANCHE OF THE \$300 MILLION COMMUNITY BORROWING ON BEHALF OF ITALY AND IRELAND. THE MINISTERS' SUBSTANTIVE DISCUSSIONS CENTERED UPON: THE FIRST QUARTERLY EXAMINATION OF THE EC ECONOMIC SITUATION; THE FOURTH MEDIUM-TERM ECONOMIC POLICY PROGRAM; THE DUISENBERG EXCHANGE RATE PROPOSALS; THE APRIL MEETING OF THE IMF INTERIM COMMITTEE; THE CIEC FINANCIAL COMMISSION; WORLD ECONOMIC ISSUES; AND THE NEXT TRIPARTITE CONFERENCE

.
THE MINISTERS ALSO HAD AN INFORMAL EXCHANGE DURING LUNCH OF THE
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ISSUE OF EC REPRESENTATION AT THE WESTERN SUMMIT (SEE SEPTTEL).
THE NEXT FINANCE COUNCIL IS TO TAKE PLACE APRIL 18. END SUMMARY.

2. EXPORT CREDIT CONSENSUS
THE MINISTERS APPROVED WITHOUT DISCUSSION THE EC COMMISSION'S PROPOSAL THAT THE COMMUNITY ADOPT THE TERMS OF THE EXPORT CREDIT CONSENSUS THROUGH JUNE 30, 1977 (REFTEL B).

3. COMMUNITY BORROWING ON BEHALF OF ITALY AND IRELAND
THE MINISTERS ALSO APPROVED WITHOUT DISCUSSION A PROPOSAL
THAT A SECOND \$100 MILLION TRANCHE FROM THE \$300 MILLION
VARIABLE RATE COMMUNITY BORROWING ON BEHALF OF ITALY AND IRELAND
BE CONSOLIDATED INTO FIXED RATE FORM (REFTEL C).

4. COMMUNITY ECONOMIC SITUATION
THE MINISTERS RECEIVED FROM THE COMMISSION AN ASSESSMENT OF
THE CONVERGENCE IN ECONOMIC POLICIES IN MEMBER STATES IN
1976 AND A REPORT ON THE CURRENT ECONOMIC SITUATION IN THE
COMMUNITY WITH PROPOSALS FOR ADJUSTMENT OF ECONOMIC POLICY
GUIDELINES (MISSION ANALYSIS OF BOTH DOCUMENTS WILL BE SENT
SEPTEL). THE OVERALL PESSIMISTIC TONE OF THESE COMMISSION
APPRAISALS WAS DISPUTED IN PART BY AT LEAST TWO GOVERNMENTS.
UK CHANCELLOR OF THE EXCHEQUER HEALEY (THE COUNCIL PRESIDENT)
TOLD REPORTERS THAT HE VIEWED THE COMMISSION RECOMMENDATION
THAT THE STERLING EXCHANGE RATE BE ALLOWED TO RISE DURING THE
COMING MONTHS (TO CHECK DOMESTIC PRICE INCREASES) AS A "RE-
TROSPECTIVE BENEDICTION" OF HMG'S POLICIES SINCE LAST OCTOBER.
ACCORDING TO AN FRG PERMDEL SPOKESMAN (LAMBSDORFF), GERMAN
FINANCE MINISTER APEL TOLD THE COUNCIL THAT HIS GOVERNMENT
HAD DONE ALL IT SHOULD TO REFLATE ITS ECONOMY AND SUBMITTED A
LIST OF 12 SPECIFIC REFLATIONARY MEASURES TAKEN BY THE FRG
SINCE 1973 (COPIES OF THIS LIST ARE BEING POUCHED TO BONN AND
EUR/RPE). ACCORDING TO LAMBSDORFF, FRG STATE SECRETARY POEHL
TOLD THE MINISTERS THAT THE USG "HAS GIVEN MORE AND MORE THE
IMPRESSION THEY APPRECIATE WHAT WE HAVE DONE" ON REFLATION.
LAMBSDORFF ADDED THAT MINISTER FOR ECONOMIC AFFAIRS FRIEDRICHS
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ALSO TOLD THE COUNCIL THAT THE USG IS NOT PUTTING ANY MORE
PRESSURE ON THE FRG TO REFLATE AND THAT THE FRG HAS NO DOUBT THAT
IT HAS DONE MORE THAN ANYONE ELSE, INCLUDING THE US, TOWARDS
REFLATION. HEALEY TOLD REPORTERS LATER THERE HAD BEEN NO
PROLONGER DISCUSSION OF FRIEDRICH'S PRESENTATION, ADDING THAT
THE MAIN DISCUSSION OF THIS ISSUE WILL TAKE PLACE DURING THE
APRIL 18 FINANCE COUNCIL.

5. ACCORDING TO LAMBSDORFF, APEL TOLD THE COUNCIL THAT THE
FRG INTENDS TO INTRODUCE A MULTI-ANNUAL (PROBABLY THREE-YEAR)
PUBLIC WORKS PROGRAM TALLING BETWEEN 8 AND 13 BILLION DM.
APEL ALSO SAID THE FRG WANTS TO FINANCE BUDGET DEFICITS THROUGH
THE GERMAN CAPITAL MARKET AND WILL MAKE EVERY EFFORT TO FIND THE
NECESSARY MEANS WITHOUT PROVOKING A RISE IN INTEREST RATES.

6. AFTER THE COUNCIL SESSION, HEALEY TOLD THE PRESS THAT THE
MINISTERS HAD APPROVED THE PROPOSED ADJUSTMENT OF 1977 ECONOMIC
POLICY GUIDELINES FOR THE MEMBER STATES.

7. FOURTH MEDIUM-TERM ECONOMIC POLICY PROGRAM

THE COUNCIL ADOPTED THE FOURTH MEDIUM-TERM ECONOMIC POLICY PROGRAM, WHICH PROVIDES A FRAMEWORK FOR COMMUNITY ECONOMIC ACTIVITIES FOR 1976-1980 (SEE REF A I E FOR FURTHER BACKGROUND). FORMAL APPROVAL OF THE PROGRAM HAD BEEN HELD UP SINCE LAST NOVEMBER PENDING SUBMISSION OF THE OPINION OF THE EUROPEAN PARLIAMENT, WHICH WAS ITSELF APPROVED ON MARCH 11. HEALEY TOLD REPORTERS THAT MOST MEMBER STATES FEEL THEY WILL HAVE PROBLEMS MEETING THE GROWTH TARGETS SPECIFIED IN THE PROGRAM AND THAT COMMISSION AND MEMBER STATE EXPERTS HAVE BEEN INSTRUCTED TO STUDY HOW THESE TARGETS CAN BE MET. ACCORDING TO LAMBSDORFF, APEL TOLD THE COUNCIL THAT THE FRG WOULD BE ABLE TO MEET ITS 5 PERCENT GROWTH TARGET FOR 1977.

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8. DUISENBERG PROPOSALS

THE MINISTERS RECEIVED REPORTS FROM THE MONETARY COMMITTEE AND THE COMMITTEE OF CENTRAL BANK GOVERNORS ON THE DUISENBERG EXCHANGE RATE PROPOSALS (REFTEL D). AFTER THE MEETING HEALEY SUMMED UP THE DISCUSSION BY SAYING THERE WAS A GOOD DEAL OF SYMPATHY FOR THE PROPOSAL BUT THAT "PEOPLE DON'T THINK IT IS POSSIBLE TO INTRODUCE THE WHOLE PACKAGE NOW; WE WILL NEED A GREATER DEGREE OF CONVERGENCE FIRST." HEALEY ALSO SAID THE MINISTERS HAD AGREED ON "FORMS OF EXCHANGE RATE CONSULTATIONS" BUT GAVE NO DETAILS. IN THE MEANTIME, THE TWO COMMITTEES HAVE BEEN ASKED TO CONTINUE THEIR WORK ON THE DUISENBERG PROPOSALS AND TO REPORT BACK TO THE COUNCIL ON A "REGULAR BASIS."

9. IMF INTERIM COMMITTEE

THE COUNCIL REVIEWED PREPARATIONS FOR THE APRIL MEETING OF THE IMF INTERIM COMMITTEE AND INSTRUCTED THE MONETARY COMMITTEE TO PREPARE A FINAL REPORT FOR THE APRIL 18 COUNCIL SESSION.

HEALEY TOLD REPORTERS THE MINISTERS HAD DISCUSSED SEVEN OPTIONS FROM THE MONETARY COMMITTEE ON FINANCING PAYMENTS DEFICITS AND INCREASING INTERNATIONAL LIQUIDITY. HE SAID HE WOULD SUBMIT TO THE APRIL 18 COUNCIL HIS DRAFT OPENING STATEMENT FOR THE LIMITED OFFICIAL USE

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INTERIM COMMITTEE MEETING.

10. CIEC FINANCIAL COMMISSION

THE COUNCIL TOOK NOTE OF A REPORT FROM THE COREPER CHAIRMAN (UK REP SIR DONALD MAITLAND) ON PROGRESS IN COMMUNITY DISCUSSIONS ON THE CIEC FINANCIAL COMMISSION.

11. WORLD ECONOMIC ISSUES

HEALEY TOLD REPORTERS THE MINISTERS ENGAGED IN A "USEFUL BUT PRELIMINARY EXCHANGE" ON WORLD ECONOMIC ISSUES, INCLUDING THE ROLES TO BE PLAYED BY THE SURPLUS AND THE DEFICIT COUNTRIES IN THE DEVELOPING WORLD. HE SAID THE MINISTERS WOULD GO DEEPER INTO SUBSTANCE ON APRIL 18.

12. TRIPARTITE CONFERENCE

THE MINISTERS HAD AN INCONCLUSIVE DISCUSSION OF THE TIMING OF THE NEXT TRIPARTITE CONFERENCE. HEALEY REMARKED AFTERWARDS THAT THE MINISTERS CONTINUE TO FAVOR A JUNE MEETING, WHILE THE COMMISSION PREFERS A LATER DATE, TO ALLOW MORE THOROUGH PREPARATION. A DATE WILL, IN ANY CASE, BE DETERMINED ONLY AFTER CONSULTATION WITH THE SOCIAL PARTNERS (INDUSTRY AND LABOR). HEALEY SAID THAT, ALTHOUGH THE SOCIAL PARTNERS SEEM TO BE MAINLY INTERESTED IN REVIEWING DEVELOPMENTS SINCE THE JUNE 1976 TRIPARTITE CONFERENCE, HMG SEES SOME MERIT IN REACHING NEW DECISIONS. HE OUTLINED AS POSSIBLE AREAS FOR STUDY: FOCUSING INVESTMENT IN LABOR-INTENSIVE RATHER THAN IN LABOR-SAVING SECTORS; SHARING IDEAS ON MICRO-ECONOMIC MEASURES; AND NEW YOUTH EMPLOYMENT PROGRAMS. HINTON

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